



Is This Your Profitability Level?

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ANRE Conference Call

June 19, 2009
Statewide



Profitability Levels

10. Economic Profit
9. Normal Profit
8. Pay all bills-add to family savings
7. Pay all bills-no addition to savings
6. Pay all bills-family living restricted w/o
Non-farm income/savings use



Is This Your Profitability Level?

- As one moves from level 7 down, decreasing profitability often forces families to convert solvency to liquidity in a compensatory effort.



Profitability Levels Continued

5. Pay all bills-family living restricted despite non-farm income/savings use
4. Like #5 but principal deferred
3. No way to pay all bills on time
2. Unpaid bills steadily increase
1. End of business



Is This Your Profitability Level?

- Many farms bounce between levels five, six, seven, and eight with variations in weather, price, and other factors.
- Very difficult to recover from level 3 or below. Level 4 is no picnic either, because very little solvency is left to create liquidity after a long period of lacking profitability.



Is This Your Profitability Level?

- At any level it is useful to understand how well the business is meeting its goals of **Profitability, Solvency, and Liquidity.**
- It is useful to understand what practices and factors contribute to meeting its goals of **Profitability, Solvency, and Liquidity.**



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